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GINNIE MAE SUMMIT

THE POWER OF PARTNERSHIPS
SEPTEMBER 22-23, 2014 | CRYSTAL CITY, VIRGINIA



GinnieMae

Our Guaranty Matters

Managing Sub-Servicing Partnerships

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WHY IT IS IMPORTANT TO GINNIE MAE:

- Ginnie Mae recognizes that there are entities that specialize in the servicing and are better equipped to manage the operational demands more effectively than entities whose primary focus is originations.
- Ineffective borrower default situations can impact the liquidity of an Issuer which in turn impacts their successful participation in the Ginnie Mae MBS program.

Managing Sub-Servicing Partnerships

WHAT IT'S NOT:

- REACTIVE
- WEEKLY OR MONTHLY CALLS
- TWO PAGE OUTLINE OR GUIDE
- PART-TIME FUNCTION
- *“IT’S MY SUB-SERVICER’S RESPONSIBILITY”*

Managing Sub-Servicing Partnerships

WHAT IT SHOULD BE:

- PRO-ACTIVE
- ON-GOING
- CUSTOMIZED TO YOUR ORGANIZATION'S NEEDS
- DEDICATED FULL-TIME ROLE
- *“AS A GINNIE MAE ISSUER, I AM ACCOUNTABLE FOR THEIR ACTIONS”*

Managing Sub-Servicing Partnerships

HOW ONE GINNIE MAE ISSUER MONITORS THEIR SUB-SERVICER:

- EVERBANK – Michael Webb

Vendor Management: Sub-Servicing Oversight

Michael Webb

Director, Enterprise Vendor Management & Procurement Services

EverBank – Jacksonville, FL

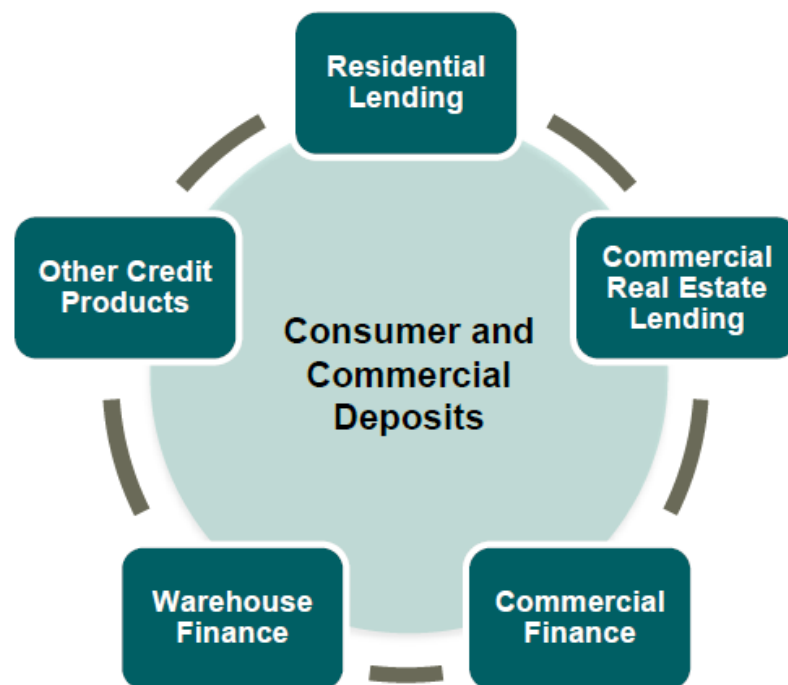
Agenda

- Who is EverBank?
- What is a Vendor?
- Regulatory Expectations and Guidance
- Risks
- Governance Structure
- Program Overview
- Components of a Good Monitoring Plan
- Sub-Servicing Monitoring and Oversight
- Closing Thoughts / Key Success Factors
- Q&A

Who is EverBank?



- Diversified financial services company headquartered in Jacksonville, FL
- \$19.8bn in Assets as of 2Q 2014 Financial Data
- Nationwide deposit and lending businesses
- Experienced management team
- 20 consecutive years of profitability



What is a Vendor?

- A vendor is any individual or business that provides products or services to another individual or business. Examples include:
 - ✓ **Loan Servicers**
 - ✓ Value-Added Resellers
 - ✓ Landscaping Companies
 - ✓ Security Operations
 - ✓ Consultants
 - ✓ Staffing Firms
 - ✓ Software Providers
 - ✓ Etc.
- Using vendors can offer many benefits including:
 - ✓ Operational efficiencies
 - ✓ Cost savings
 - ✓ Speed to market
 - ✓ Providing expertise that is not otherwise available internally



Regulatory Expectations

- Regulatory agencies expect vendor arrangements to be managed in a **safe and sound manner** and be in compliance with laws and regulations
- Vendor arrangements do not “wash management’s hands” of the responsibility of managing the risks. **Underlying controls** should be the same as if the activity were being conducted directly.
- Each organization’s risk profile is unique and requires a **tailored risk-management approach**
- A **risk-management process** should be adopted to identify, monitor, manage, and control the risks posed by the activity



Regulatory Guidance: Compliance, Enforcement, Change

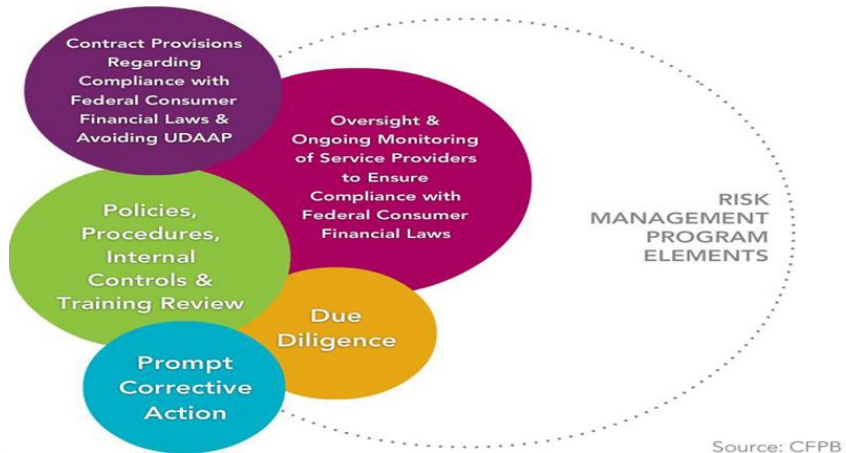
Board of Governors of the Federal Reserve System (FRB)



Office of the Comptroller of the Currency (OCC)



Consumer Financial Protection Bureau (CFPB)



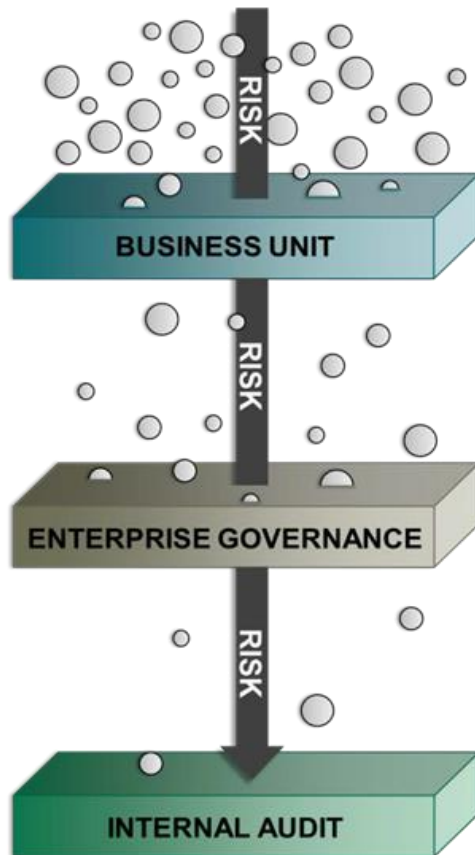
Federal Deposit Insurance Corporation (FDIC)



Risks

- The Issuer / Primary Servicer is held accountable for:
 - ✓ **Reputational Risk**
 - ✓ **Strategic Risk**
 - ✓ **Compliance Risk**
 - ✓ **Transactional Risk**
 - ✓ **Credit Risk**
- Ineffective risk management can impact an issuer's liquidity, which in turn could jeopardize their eligibility to participate in Ginnie Mae's MBS program.

Governance Structure: Three Lines of Defense



First Line of Defense

The **business unit** plays a key role in the first line of defense for the organization as it relates to vendor risk and is involved in each phase of the vendor lifecycle, including the day-to-day interaction with the vendor.

Second Line of Defense

The second line of defense consists of **vendor governance and oversight** entities that work together to effectively identify, measure, monitor, and control the vendor risks.

Third Line of Defense

Internal audit is the third line of defense. They are charged with providing test methodologies that provide validation of vendor risks, both on an individual basis as well as an enterprise level.

Program Overview: Sub-Servicer Lifecycle Management

Governance and Accountability				
• Board Oversight		• Roles & Responsibilities		• Policies & Procedures
Culture				
• Tone at the Top		• Talent Management		• Incentives
Risk Management Process / Lifecycle Stages				
Planning <ul style="list-style-type: none">• Upfront Risk Assessment• Cost Analysis• Contingency Plan• Customer Expectations• Regulatory Implications	Due Diligence <ul style="list-style-type: none">• Financials• Qualifications• Experience• Reputation• Fee Structure• Risk Management• Information Security• Business Continuity	Contracting <ul style="list-style-type: none">• Nature and Scope of Arrangement• Service Level Agreements• Audit Rights• Confidentiality• Insurance• Indemnification	Ongoing Monitoring <ul style="list-style-type: none">• Due Diligence Reviews• Independent Testing• Audits• Performance Reporting• Issues Management	Termination <ul style="list-style-type: none">• Transition Plan• Criteria for Migration• Migration Risks• Termination Rights and Obligations
Program Infrastructure and Reporting				
• Risk Appetite		• Resources (Skills & Training)		• Technology & Data
• Continuous Improvement				

Components of a Good Monitoring Plan

- **Oversight**

- ✓ Experienced Servicing Personnel with a Broad Understanding of Servicing Requirements

- **Reporting & Monitoring**

- ✓ Performance Metrics
- ✓ Exception Reporting
- ✓ Complaints Tracking
- ✓ Service Level Agreements (SLAs)
- ✓ Scorecards & Meeting Minutes

- **Contingency Planning**

- **Testing**

- ✓ Onsite Reviews
- ✓ Key Controls Validation
- ✓ Regularly Scheduled Audits



Post Transfer Oversight: **Daily**

- **Communication and collaboration with sub-servicer**
- **Active cash management oversight**
 - ✓ Monitor transactions such as funding of cash shortages, loan sale & draft differences, and buyouts
- **Review daily reports / exceptions**
 - ✓ Foreclosure Timeline Management
 - ✓ Conveyances
 - ✓ Reporting and Feedback System (RFS)
 - ✓ GinnieNet
- **Monitor Management Action Plans**
 - ✓ Remediation Activity
- **Ensure compliance**
 - ✓ Service Level Agreement(s), Contract Terms, Regulatory Requirements, Policies



Post Transfer Oversight: **Monthly**

- **Scorecards & meeting minutes**
- **Review of monthly reports**
 - ✓ Monthly pool to security
 - ✓ Escrow administration
 - ✓ First Legal Action Date (FLAD)
 - ✓ Loan data
 - ✓ Actual vs expected portfolio performance
 - ✓ Early and late roll rates
 - ✓ DQ2+, DQ3+, and DQP Ratios
 - ✓ VA Valeri reports
 - ✓ Holdback reports
- **Testing of expected principal & interest exceptions**
- **Review Neighborhood Watch**
- **Initiate early buyouts**



Post Transfer Oversight: Quarterly

- Call center monitoring
- Transactional level testing
- Operational controls and procedures validation
- Compliance reviews
- Quality Control audits



Post Transfer Oversight: **Annually**

■ **Onsite Reviews**

- ✓ Business Strategy
- ✓ Performance / Service Delivery
- ✓ Regulatory Compliance
- ✓ Human Resources
- ✓ Employee Training
- ✓ Vendor Management
- ✓ Consumer Complaint Management
- ✓ Business Continuity / Disaster Recovery
- ✓ Physical Security
- ✓ Information Security
- ✓ Information Technology



Closing Thoughts / Key Success Factors

- Strong Program Framework
- Tailored Risk-Management Approach
- Proactive Partnering and Resource Sharing
- Active Oversight
- Good Communication
- Performance Management and Ongoing Monitoring
- Effective Reporting
- Document Management
- Tone from the Top
- Consistent Execution and Evidence
- Leverage your Ginnie Mae Team



Any questions?

